



## Sunrise

Monday, 19 June 2017

### Rates: Slow start to trading week, with wildcard Dudley

Today's eco calendar is empty suggesting low volume neutral trading in tight ranges. Fed governor Dudley speaks and is a wildcard for dealings. Dudley is a bellwether and close ally to Fed chairwoman Yellen. US yields (10y, 30y) remain close to key support levels, even as the Fed held on to the blueprint of its future tightening cycle last week.

### Currencies: USD looking for new impetus as post-Fed rebound stalls

On Friday, the dollar returned part of its post-Fed gains as US eco data disappointed. The dollar needs strong eco data or positive Fed comments to regain more ground. These factors probably won't be available today. Sterling hovers off the recent lows as the Brexit negotiations formally start.

### Calendar

## Headlines

S&P	→
Eurostoxx 50	→
Nikkei	→
Oil	→
CRB	→
Gold	→
2 yr US	→
10 yr US	→
2yr DE	→
10 yr DE	→
EUR/USD	→
USD/JPY	→
EUR/GBP	→

- **Asian stocks rose on Monday**, shaking off Wall Street's uninspiring performance on Friday. The **yen slumped against all its major peers**. **Oil continued to retreat**, trading near the lowest level since November.
- **Macron's party won an absolute parliamentary majority** in France (likely 350 out of 577 seats). Macron's majority gives **him a free hand to push through his program of liberalizing France's labour market closer European integration**.
- Fitch confirmed the **Portuguese BB+ rating**, but raised its **outlook to positive** from stable, giving the country the perspective to regain its investment grade status that it lost in 2011. Positive fiscal developments supported the decision.
- **Fed Kashkari** explained his dissenting vote at the FOMC meeting. He stressed the lower core inflation readings and inflation expectations and preferred the risk of not raising rates too soon, as lower core inflation might not be transitory.
- **Fed Kaplan, voter & firmly in moderate camp**, said the Fed must be cautious and patient in raising rates further. He wants to see more progress on achieving the 2% target and wants more evidence of that before taking the next step. **This suggests there is doubt within the Fed on the timing of the next move**.
- Rumours suggest **pressure on PM May within her own party has increased** as constituency party bosses, especially remain-voters, have called on ministers and MPs to force May from power through a no-confidence vote..
- The **eco-calendar is wafer-thin** today with the only event of significance being the **Business Roundtable of NY Fed president Dudley**.

# Rates

## US Treasuries gain modestly on again weaker eco data

German bonds erase early losses

US Treasuries gain ground on weak US eco data

Rally peripherals stopped on Friday

Greece profits from creditors agreement

	US yield	-1d
2	1,32	-0,04
5	1,75	-0,02
10	2,16	-0,01
30	2,78	-0,01

	DE yield	-1d
2	-0,66	-0,01
5	-0,40	-0,02
10	0,28	-0,02
30	1,11	0,00

German Bunds continued to underperform US Treasuries on Friday morning as follow through selling in thin market conditions prevailed. However, the downward move was exhausted by mid-morning and Bunds gradually recovered. **US Treasuries held a tight range, but that changed after housing starts and permits disappointed.** The simultaneous fall of the dollar and equity futures reinforced core bonds' up leg. **The flattening of the US curve of previous days was partially unwound.** The US mid-morning US Michigan consumer sentiment survey disappointed as well, keeping the bid alive. It also allowed German Bunds to penetrate positive territory. US Treasuries topped out though and lost some of the gains. **Speeches of Fed Kaplan and Kashkari (FOMC voters) were interesting (see headlines) but didn't affect markets.**

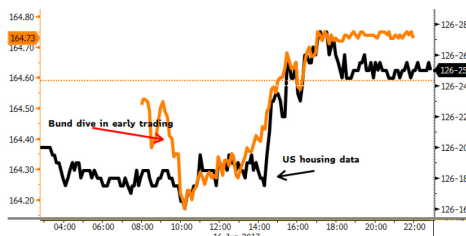
In a daily perspective, the **US curve bull steepened** with yield 3.2 bps (2-yr) to 1.2 bps (10 & 30-yr) lower. **German yields** ended 0.6 bps to 1.6 bps lower. The 30-yr underperformed (+ 1.3 bps). **Intra-EMU spreads versus Germany (10-yr)** widened 3-to-6 bps, a first correction on the spread narrowing of previous 7 sessions. **The Greek spread narrowed about 20 bps** on the bailout agreement which allows Greece to redeem maturing bonds in July.

## Unattractive calendar today and thin further out

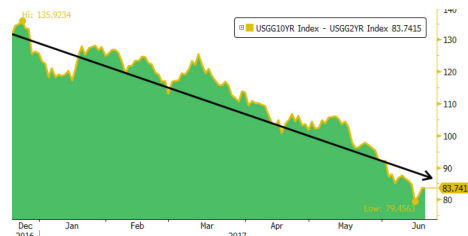
The **EMU eco calendar** is empty today and only becomes interesting on Friday with the **June Markit business PMI's**. There are few ECB speakers (only Portuguese governor Costa on Tuesday), while the **ECB bulletin** is published on Thursday. The **US eco calendar is also empty today** and contains mainly second tier releases further out this week. The only potential market mover is an appearance of **NY Fed Dudley** at a roundtable. Later this week, 8 other Fed governors give their views. **This allows us to get a better take on the past FOMC meeting and the outlook for policy going forward.**

No eco data of importance

Fed speakers main topic this week



Bund future (orange) & T-Note future (black) intraday: Bund sold in the morning, but weaker US eco data push T-Note (and Bund) higher.



US 2/10-yr yield spread: Decline throughout H1 questions economic strenght. Trump steepening completely undone

## Low EMU bond supply this week

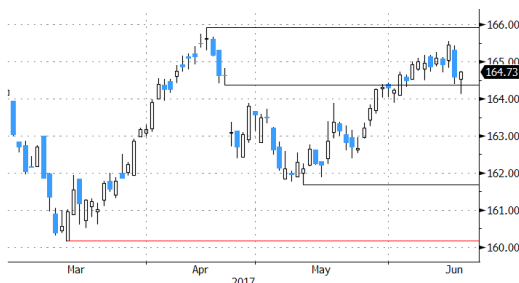
R2	165,93	-1d
R1	165,55	
<b>BUND</b>	164,69	0,14
S1	161,68	
S2	160,17	

The Belgian debt agency starts this week's scheduled EMU bond supply today by tapping three on the run OLO's for a combined €2.7-3.2B: OLO 82 (0.5% Oct2024), OLO 81 (0.8% Jun2027) and OLO 78 (1.6% Jun2047). Year-to-date, Belgium raised already €21.63B via 4 syndicated benchmarks and 2% regular auctions, which is 62% of the €35B OLO funding need. Bond on offer traded rather stable in ASW spread terms going into the auction. OLO 81 (Jun2027) sits cheap on the OLO curve, while the other bonds on offer are neutral. We expect a plain vanilla auction. **The German Finanzagentur holds a 30-yr Bund auction on Wednesday (€1B 2.5% Jul2044).**

## Slow start to trading week, with wildcard Dudley

**Overnight**, Asian stock markets eke out gains between +0.5% and +1%. The US note future and oil prices trade stable though, suggesting a neutral opening for the Bund. French president Macron's LREM won a solid majority in French parliamentary election, but that was markets base scenario, so we don't expect a reaction (perhaps even some buy-the-rumour, sell-the-fact in OAT's?!).

**Today's eco calendar** is empty suggesting low volume neutral trading in tight ranges. **Fed governor Dudley speaks** to business and community leaders, but remains a wildcard shortly after the Fed's June policy meeting. Dudley is a bellwether and close ally to Fed chairwoman Yellen. Softness/cautiousness on his end could strengthen markets' dovish view. US yields (10y, 30y) remain close to key support levels even as **the Fed held on to the blueprint of its future tightening cycle last week. If support levels in US yield terms hold into the weekend, we recommend a cautious sell-on-upticks strategy. Our basis assumption remains that the long term rally of core bonds is over as policy normalisation slowly starts (ECB) or accelerates (Fed).**



German Bund: Test of contract high aborted?



US Note future: US Treasuries still in uptrend, but top may be set (as 10-yr yield is back above yield support)

# Currencies

## USD rally hesitates

*Dollar ceded part of post-Fed USD rebound on weak eco data.*

*Risk-on sentiment hardly supports the dollar*

*Kiwi dollar extends uptrend.*

*Eco calendar is empty*

*Will a positive risk sentiment enough to support USD gains?*

R2	1,1428	-1d
R1	1,13	
EUR/USD	1,1191	0,0042
S1	1,0839	
S2	1,0778	

On Friday, EUR/USD reversed part of Thursday post-Fed decline as the two day global dollar rebound stopped. Poor US housing data and weaker than expected US consumer confidence hit the dollar. USD/JPY was initially better supported by a constructive equity sentiment, but the momentum also eased later on. EUR/USD closed the session at 1.1198. USD/JPY finished the week at 110.88.

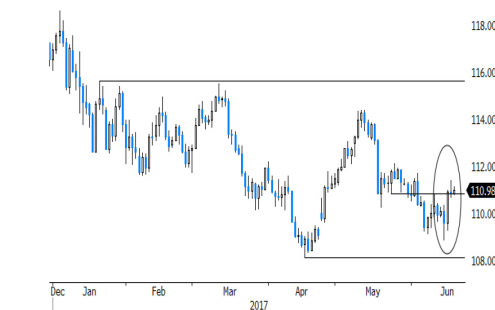
**Overnight**, Asian equities show moderate gains between. The Japanese trade surplus narrowed more than expected, but it was due to a sharp rise in both imports (17.8% Y/Y) and exports (14.9%). The report is an indication of better domestic demand. However, the impact on the yen is limited. USD/JPY trades in the 111 area. The kiwi dollar extended its recent rebound on better than expected consumer confidence and improvement in the services sector. NZD/USD trades in the 0.7280 area. For now, the positive risk sentiment is barely helping the dollar. EUR/USD is changing hands close to 1.12.

There are no data with market moving potential today. **Political events, technical considerations and global risk sentiment on will have to guide USD trading.** The party of the French president Macron secured a solid majority. Sentiment on risk is constructive at the start of the new trading week. The tech correction that weighed on global equities last week is apparently easing. **Is this set-up enough to support a USD rebound? First indications from Asian show no rush to buy the dollar.**

After last week's relative hawkish Fed statement, the **topside in EUR/USD looked better protected and a cautious sell-on upticks approach was advised. We hold on to that view.** However, sustained USD gains need better US eco data, supportive Fed comments and/or higher US yields. It's unlikely to happen today. An equity comeback might be slightly USD supportive, but we don't expect big USD progress. in this respect we keep a close eye on USD/JPY. Recently the USD/JPY performance was mediocre even as several equity indices are trading near record levels.



EUR/USD: test off 1.1300/66 resistance rejected, but correction remains limited for now.



USD/JPY: Downside pressure eases, but pair struggles to regain 111 barrier

## Technical picture

The **USD/JPY rally** ran into **resistance** in early May. A mini sell-off pushed the pair below the previous top (112.20), making the short-term picture negative and driving the pair further down in the 108.13/114.37 range. The post-Fed USD rebound pushed the pair beyond a first minor resistance at 110.81. However, there are still no follow-through gains. If the break higher is confirmed, it suggests that the USD/JPY downside momentum is easing. For now, we remain cautious to forecast a U-turn.

**Early May, EUR/USD failed to break below the 1.0821/1.0778 support (gap).**

Poor US data and US political upheaval propelled EUR/USD north of the 1.1023 range top to a corrective top in the 1.12 area. The pair tested the 1.1300 area going into the FOMC decision, but the test is rejected. So the **Trump top/correction top at 1.1300/1.1366 proved to be a solid resistance. USD sentiment will have to become very negative to clear this hurdle. A return below 1.1023 would indicate that the upside momentum has eased.**

## Sterling off recent lows as Brexit-talks start

On Friday, sterling entered calmer waters, as . However, there was no follow-through sterling buying after Thursday's BoE vote. **EUR/GBP rebounded slightly off the correction low (0.8720 area), but this move mostly mirrored a modest rebound of the euro after yesterday's EUR/USD decline.** The pair closed the session at 0.8760. Cable also gained a few ticks and finished the week at 1.2783.

Overnight, **Rightmove House prices** declined more than expected at -0.4% M/M and + 1.8% Y/Y. **The focus for sterling trading will remain on the political scene.** PM May still tries to find support for a minority government, while at the same time, the official Brexit talks will start. There is growing support even from a part of May's party for a softer Brexit. **That should be sterling supportive, but it contains the risk of more division in the conservative party and thus global UK political uncertainty.** We don't bet on a sustained sterling rebound as long as political uncertainty remains as high as it is.

**From a technical point of view,** EUR/GBP extensively tested the 0.8854 area (2017 top), but a real break didn't occur. Some consolidation might be on the cards after last week's post BoE EUR/GBP correction. However, the broader technical picture hasn't changed. A return below the 0.8655 correction low would be an indication that the pressure on sterling is easing. Such a break will be difficult. A EUR/GBP buy-on-dips approach is still favoured.

R2	0,8881	-1d
R1	0,8866	
EUR/GBP	0,8764	0,0033
S1	0,8383	
S2	0,8314	



EUR/GBP shows no clear trend as Brexit negotiations formally start.



GBP/USD: sterling and dollar keep each other in balance, for now

# Calendar

Monday, 19 June		Consensus	Previous
<b>Canada</b>			
16:00	Bloomberg Nanos Confidence (1/06/2016)	--	57.8
<b>Japan</b>			
01:50	Trade Balance (May)	A -¥203.4b	¥481.1b
01:50	Trade Balance Adjusted (May)	A ¥133.8b	¥97.6b
01:50	Exports YoY (May)	A 14.9%	7.5%
01:50	Imports YoY (May)	A 17.8%	15.1%
<b>UK</b>			
01:01	Rightmove House Prices MoM Y/Y (Jun)	A -0.4%/1.8	1.2%/3%
<b>EMU</b>			
11:00	Construction Output MoM Y/Y (Apr)	--	-1.1%/3.6%
<b>New Zealand</b>			
00:00	Consumer confidence (Q2)	--	111.9
<b>Events</b>			
15:00	ECB's Nouy Gives Statement to European Parliament's...		
14:00	Fed's Dudley Holds Business Roundtable in Plattsburgh, NY		

10-year	<u>td</u>	<u>-1d</u>		2-year	<u>td</u>	<u>-1d</u>		Stocks	<u>td</u>	<u>-1d</u>
US	2,16	-0,01		US	1,32	-0,04		DOW	21384,28	24,38
DE	0,28	-0,02		DE	-0,66	-0,01		NASDAQ	6151,758	-13,74
BE	0,61	-0,01		BE	-0,55	-0,01		NIKKEI	20067,75	124,49
UK	1,02	-0,01		UK	0,16	-0,02		DAX	12752,73	60,92
JP	0,06	0,00		JP	-0,11	0,00		DJ euro-50	3543,88	18,42
IRS	<u>EUR</u>	<u>USD</u>	<u>GBP</u>	EUR	<u>-1d</u>	<u>-2d</u>		USD	<u>td</u>	<u>-1d</u>
3y	-0,09	1,64	0,59	Eonia	-0,3550	0,0060				
5y	0,14	1,82	0,74	Euribor-1	-0,3730	-0,0010		Libor-1	1,2122	0,0406
10y	0,75	2,12	1,10	Euribor-3	-0,3290	0,0000		Libor-3	1,2736	0,0232
				Euribor-6	-0,2710	0,0000		Libor-6	1,4327	0,0067
Currencies	<u>td</u>	<u>-1d</u>		Currencies	<u>td</u>	<u>-1d</u>		Commodities	<u>td</u>	<u>-1d</u>
EUR/USD	1,1191	0,0042		EUR/JPY	124,24	0,34		CRB	173,05	0,27
USD/JPY	111,02	-0,11		EUR/GBP	0,8764	0,0033		Gold	1254,10	-1,00
GBP/USD	1,2769	-0,0001		EUR/CHF	1,0904	0,0033		Brent	47,25	0,29
AUD/USD	0,7615	0,0025		EUR/SEK	9,7446	-0,0103				
USD/CAD	1,3223	-0,0040		EUR/NOK	9,4563	-0,0224				

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